

Statement of Douglas J. Holmes
President, UWC- Strategic Services on Unemployment &
Workers' Compensation

Before the
U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Income Security and Family Support
Hearing on Modernizing Unemployment Insurance to
Reduce Barriers for Jobless Workers

September 19, 2007

UWC- Strategic Services on Unemployment & Workers' Compensation
1331 Pennsylvania Ave. N.W., Suite 600, Washington, D.C. 20004-1790
Phone (202) 637-3463 Fax (202) 783-1616 www.UWCstrategy.org

Chairman McDermott, Ranking Member Weller, and members of the Subcommittee on Income Security and Family Support, thank you for the opportunity to submit comments with respect to proposals to reduce barriers to unemployment insurance for jobless workers.

I am Douglas J. Holmes, President of UWC- Strategic Services on Unemployment & Workers' Compensation (UWC). UWC counts as members a broad range of large and small businesses, trade associations, service companies from the Unemployment Insurance (UI) industry, third party administrators, unemployment tax professionals, and state workforce agencies.

UWC fully supports efforts to maintain a sound unemployment insurance system and to assure that individuals who become unemployed through no fault of their own are able to apply for, and if otherwise eligible, receive unemployment compensation as temporary support during periods of unemployment.

The UI system was designed to provide temporary cash support to individuals who become unemployed after a period of employment sufficient to meet workforce attachment requirements. Although UI provides a social safety net, it is an insurance program financed by employers through payment of state unemployment and federal unemployment taxes. It was never intended to be the universal source of cash payments for individuals that have no or insufficient attachment to the workforce to qualify for unemployment compensation benefits under the applicable state law, nor should it be. It is axiomatic that an individual must first be employed in order to be unemployed.

In addressing the issue of "barriers" to unemployment insurance it is important to first define the population that is not benefiting from unemployment compensation payments. A close examination of the actual workings of the unemployment insurance system reveal that the number of individuals who "should" receive unemployment compensation payments but do not because of state law restrictions is very small.

The "Reciency Rate" methodology is not a valid statistical measure of those who should be paid unemployment compensation who are not.

Measurements such as the "reciency rate" that are used as a basis for arguments that there are large numbers of individuals who "should" receive unemployment compensation but do not, fail to take into consideration that many individuals who are counted as "unemployed" for purposes of the Total Unemployment Number should not be included among those that could or should be paid unemployment compensation.

For example, the total number of unemployed used in the calculation of the reciency rate includes 1) individuals who were discharged for just cause from their jobs, 2) those who quit work without just cause, 3) those who have refused suitable work, 4) new entrants to the workforce that have no employment history, 5) reentrants to the workforce whose work history is not recent enough to be counted for UI benefit eligibility, 6) individuals unemployed due to a labor dispute other than a lock-out, 7) individuals

receiving severance or separation pay, 8) those who have exhausted unemployment compensation benefits, 9) individuals who have chosen for whatever reason not to claim unemployment compensation, 10) self-employed individuals, and 11) undocumented aliens. None of these individuals are typically eligible to be paid weekly unemployment compensation, yet the calculation of the “reciency rate” which compares the insured unemployment number with the total unemployment number seems to imply that all of these individuals should be paid benefits.

A study of the “reciency rate” methodology conducted for the New Hampshire Employment Security Economic and Labor Market Information Bureau in 1999 details the shortcomings of the “reciency rate” methodology.

There are many individuals who may not be working who are not and should not be eligible for unemployment compensation.

In addition, it should be noted that there are some individuals who are paid unemployment compensation who are not counted in the total unemployment rate, including individuals who file for partial unemployment benefits (i.e. they had some earnings with respect to a week of unemployment compensation that they claimed). This group typically includes low wage and part-time workers who are receiving partial unemployment compensation benefits.

The actual percentage of individuals who may be eligible for unemployment compensation who are not paid unemployment compensation is more appropriately estimated by a review of the percentage of “job losers”. The percentage of “job losers” who are paid unemployment compensation has historically fluctuated with economic cycles in the 80% to 90% range.

The enactment of the new minimum wage legislation significantly reduces the number of individuals with lesser workforce attachments who may not qualify for unemployment compensation.

The recent enactment of federal and state minimum wage legislation has the effect of significantly reducing the number of individuals working 20 hours or more per week on average who may not qualify monetarily to establish a benefit year.

An individual earning \$7.00 per hour working 20 hours per week for 29 weeks during a four quarter base period meets the minimum wage requirements for unemployment benefit eligibility in all states. Many states have minimum wage requirements that are much lower; as low as \$130 a year in Hawaii. Thirty-four states have minimum wage requirements for a year of \$2400 or less.

The effect of new federal requirements to pay unemployment compensation to a new group of individuals would be to reduce benefits to existing claimants and/or increase state unemployment taxes paid by employers.

The effect of federal mandates with respect to the use of alternative base periods, relaxed work search requirements, payments of unemployment compensation to those who choose to quit work during periods of domestic violence, payment of unemployment compensation to those whose separation from employment results from the illness or disability of a member of the individual's family, or payment to those whose separation from employment results from a need to accompany a spouse, will be to reduce unemployment compensation benefits that would otherwise be paid to claimants with greater workforce attachments and/or increase state unemployment compensation tax rates.

This is true because unemployment compensation benefit coverage and benefit payments are determined under state law and each state is responsible to enact legislation that assures that there is sufficient dedicated funding in the state's unemployment compensation benefit account to pay unemployment compensation benefits.

Many states have enacted these provisions already without federal requirements as the result of state level negotiations between employers, legislators, governors, and representatives of organized labor and worker advocacy groups. As a practical matter, state laws balance the interests of all of these groups in determining benefit eligibility and unemployment tax rates.

Responsibility and accountability for these decisions has been maintained at the state level for decades and should remain with the states.

The costs of program and system changes related to conversion to an alternative base period system are significant

As Unemployment Insurance Director in Ohio in 1988, I was directly responsible for conversion of Ohio's benefit system to provide for the alternative base period. In order to pay for the cost of the state law change implementation, Ohio applied for and received funding from the USDOL. Federal funds were provided by USDOL but the amount provided did not fully cover the costs of the conversion.

Issues in implementation included 1) policies procedures and forms to be used in obtaining the most recent quarterly wage data from employers, 2) the use of claimant affidavits in lieu of employer quarterly reports to assure timeliness of benefit application determinations, 3) revised charging of employer accounts to reflect the alternative base period, 4) policies and procedures needed to address transitional claims, and 5) system design, programming, system capacity, staff training, testing, and interstate coordination.

An analysis and projection of costs to states and employers of implementation of alternative base periods is needed before determining the amount of administrative funds needed to assist states choosing to adopt alternative base period legislation.

The increase in unemployment compensation benefits resulting from an alternative base period varies by state, depending on a number of factors, including the composition of the state workforce and the overall benefit eligibility provisions already in place.

The additional cost in states with low minimum qualifying requirements would be more limited than states with higher minimum qualifying requirements because fewer individuals are disqualified in the first place.

Studies of the increase in benefit costs associated with alternative base periods have estimated the increase in unemployment compensation benefit pay-out as a result of the alternative base period provision in the range of 1.1% to 6% annually.

An analysis of the increased unemployment compensation benefit costs resulting from the implementation of alternative base periods is needed in determining the impact on state trust funds and employer taxes on a state by state basis. Without such an analysis a state considering whether to enact an alternative base period would not be able to properly assess the cost/benefit with respect to any special Reed Act distribution funding that might be available.

The focus of efforts to assist low wage and part-time workers should be to identify and remove barriers to employment.

Individuals with minimal workforce attachment, particularly those with families to support, will not significantly benefit from unemployment compensation benefits. An individual working 20 hours a week and paid \$7.00 an hour, if monetarily eligible, would typically qualify to be paid unemployment compensation of \$70.00 per week, which may be reduced by partial earnings from part-time work during the week. This level of support is insufficient to assist in removing barriers to employment.

Other governmental and privately funded support programs for low wage workers, particularly those providing support for workers with families, are much more significant and targeted in removing barriers to employment. Such individuals are typically eligible to receive services under the Workforce Investment Act (WIA), the Food Stamp Act, and the Temporary Assistance for Needy Families (TANF) program. Services under these programs include cash support payments for workforce participation, payment of travel expenses to employment, education and training, assessment services, treatment for substance abuse, English as a second language instruction, job readiness training, and subsidized child care. Many of these individuals may also benefit from the Earned Income Tax Credit (EITC) and the Workforce Opportunity Tax Credit (WOTC).

A review of the array of programs designed to serve low wage and part-time workers, particularly those with families is needed to properly evaluate any gaps in the social safety net that should be addressed.

The cost to states and employers of the new federal requirements with respect to alternative base periods and other benefit provisions should be determined before enacting new federal requirements.

It has been proposed that if states already have enacted alternative base period provisions or enact new alternative base provisions and other benefit provisions, that states will receive a pre-designated share of a \$7 billion special distribution into the qualifying state unemployment trust fund account and will receive a pre-designated share of \$100 million per year in additional administrative funding.

There is no relationship between these distributions and appropriations and the increased administrative cost and increase in benefit costs associated with the new federal requirements.

As a result, some states will receive a windfall in additional funding while others will be shortchanged or receive no supplemental funding if they elect not to enact the required provisions. It should be noted that four of the five states with the highest minimum qualifying wage requirements are also alternative base period states. A special distribution to these states would have no impact on reducing the number of low wage or part time workers and effectively reward states that have made it more difficult for low wage workers to qualify for benefits.

This is inconsistent with the UI Federal/State partnership designed to properly share responsibility for funding of administration and benefit costs between states and the federal government. It sets up a series of winner and loser states and exacerbates the existing imbalance in administrative funding.

In addition, it should be noted that state UI administration is already under funded by at least an estimated \$300 million per year. An additional \$100 million per year is insufficient to properly fund the UI system in the first place, let alone to fund the additional administrative costs of implementing alternative base periods or other federally required provisions.

There are currently no projections on a state by state basis of the long term costs of alternative base period benefit increases and the other benefit provisions included in the new federal requirements to compare against the one-time special distributions. Without these projections, the cost of these proposals to states and employers as compared to the one-time distribution can not be determined.

Also, to the extent that the \$7 billion one-time distribution is greater than the costs associated with the new federal requirements, the federal unemployment trust fund accounts will be unduly depleted, putting the fund at risk of insolvency in the event of

new legislated extended unemployment compensation that may be enacted during a future recession.

States with the lowest percentage of the distribution that do not currently have alternative base periods would bear a higher burden of implementation.

Conclusion

An updated evaluation of the number of individuals with workforce attachment who are not paid unemployment compensation is needed. The evaluation should include a breakdown of the individuals who are not working and are not receiving unemployment compensation by causation to determine the numbers of individuals who have become unemployed through no fault of their own, who are otherwise eligible, and are not being paid unemployment compensation benefits through the federal/state UI system.

The review should also address the array of other programs, including TANF, WIA, Foodstamps, Medicaid, EITC and WOTC under which many individuals who have minimal workforce attachment or are working in low wage or part-time jobs.

Careful analysis of the costs to states and employers of implementation and benefit increases due to alternative base periods and other benefit provisions on a state by state basis is needed to determine the appropriate federal funding to be provided. Without such an analysis, states and employers will be short changed in funding and federal unemployment trust fund accounts will be unduly depleted.

